



REAP THE HARVEST

Profit with Social Value IW Council

**IW Council Scrutiny Committee's Task and Finish
Group's Interim Report on Commercialisation –
February 2019**

by

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Interim Report

Commercialisation - Summary of Initial Findings

This Report is entirely the views of the Members of the Commercialisation Task and Finish Group. The Group wish to thank and acknowledge the following for their help and support to undertake this investigation on Commercialisation: Paul Thistlewood, Wendy Perera, Chris Ashman, Ashley Curzon, Kerry Hubbleday, Alex Minns (IW Council) and Michael Bulpitt (IW Community Action).

1. The Forward

Commercialisation is an avenue for a Council to secure legitimately additional funds from its services, and to reinvest this financial gain into social value services across the Council and Island that would bring benefit to all residents. This interim report investigates the context and current position of the Isle of Wight (IW) Council in developing and implementing a Commercialisation Strategy as stated within its Corporate Plan 2017-2020.

Definition of Commercialisation is the process of managing or running something principally for financial gain. The Local Government Association explains the need for commercialisation within Local Authorities as follows: *"As funding shrinks exploring new ways to maximise incomes is essential. In order to protect valuable frontline services and ensure positive outcomes for local communities councils are increasingly thinking through a more commercial approach to their activities. These innovative councils are using their assets wisely, trading services with others across the public and private sectors, and selling commodities to generate income."* <https://www.local.gov.uk/our-support/efficiency-and-income-generation/commercialisation>

It is essential for the principal of Social Value to be an integral component within any Commercialisation strategy. The Principles of Social Value provide the basic building blocks for anyone who wants to make decisions that take this wider definition of value into account, in order to increase equality, improve wellbeing and increase environmental sustainability.

<http://www.socialvalueuk.org/what-is-social-value/the-principles-of-social-value/>

2. Context

The Task and Finish Group's starting point was the IW Council Corporate Plan (2017-2020) and the statement that in order the Council to improve its overall financial resilience there was a requirement to pursue entrepreneurial, commercial and collaborative activities.

From IW Council Corporate Plan – 2017-2020

The council's financial position remains its most serious challenge; its gross annual controllable expenditure in 2017/18 is £160m but after taking account of long term commitments, its 'real' controllable expenditure is £120m. Having already saved in excess of £67m over the six years from 2011/12, it must still save a further £7.5m in the 2017/18 financial year and a further £19m in the following three years to ensure that its expenditure matches its income. It has taken robust actions in the development of a new Medium Term Financial Strategy, which has improved the overall financial resilience of the council, this still requires the council to:

- Increase its overall; efficiency and effectiveness
- **Pursue entrepreneurial, commercial and collaborative activities**
- Withdraw from or offer minimum provision for low impact services
- Improve the Island economy and therefore the tax base (homes and businesses)
- Deliver significant public service transformation

<https://www.iow.gov.uk/azservices/documents/1433-Draft-Corporate-Plan-2017-2020.pdf>

3. The Group and Work on Commercialisation

The Task and Finish Group decided to split the work into two stages:

Stage One - Information Collection, Initial Findings and Context Setting

Stage Two – Exploration of Innovative and Feasible ideas that could increase income for IW Council and benefit Local Residents.

4. Stage One

At Stage One the Task and Finish Group is to produce this initial report of findings to coincide with the Scrutiny Committee Meeting in February 2019 on the 2019-20 Budget.

Initial findings have found that about 30% of savings outlined in the Cabinet's initial savings list could be described as Commercial (trading) activities. The group from the onset found that although the Isle of Wight Council refers to commercialisation in the corporate plan as yet there is no Commercial Strategy. This provided the opportunity for an initial report to feed into the development of this strategy. Meetings were held with a number of IOWC and Voluntary sector representatives, and one Group member attended a Local Government Association course on Commercialisation alongside IOWC officers titled "Profit for a Purpose".

5. Legal Frame-Work

It was important that from the on-set that Commercialisation was contextualised within Legislation. The Local Government Act 2000 gave local authorities a general power to provide services or activities necessary for the wellbeing of the local community and the Local Government Act 2003 gave authorities the power to trade. Councils have powers to charge for a wide range of services. Many of these powers are derived from legislation which is applicable to specific service areas.

The Local Government Act 2003, has enabled local authorities to charge as they choose to for discretionary services, provided they are not prohibited by other legislation and taking one year with another they do not make a profit. The Localism Act 2011 contains the 'general power of competence' essentially allowing local authorities to do anything that is not expressly prohibited, offering scope for the Council to identify innovative ways in which it can generate income, as long as they are not prohibited by other legislation. **Trading** can be described as the opportunity to generate efficiencies, surpluses and profit, whereas **Charging** is the ability to recover the costs of providing discretionary services. The Council can charge for anything so long as there is legal authority for the Council to run the service (and unless charging is prohibited).

The Council can charge for anything that we have to do to set up, run and invest in a service. The Council can trade for commercial purposes in anything that it wishes for the wellbeing of the community. The Council can make a profit on its trading activities. ***"These freedoms allow the Council to stimulate innovation in the delivery of its services and set up potential trading vehicles to carry out a service for the well-being of the community."***
<https://dorset.moderngov.co.uk/documents/s1280/Commercialisation%20Income%20Generation%20Strategy.pdf> .

It is important to note that the Legislation that enabled commercialisation in Local Authorities was under a Labour Government and the Lib-Dem Ministers in the Coalition Government initiated the Localism Act 2011. All Authorities across the UK have some form of trading within their service delivery whatever the political leadership. Development of a Commercial Strategy should be viewed as a necessary reality within any Local Authority Corporate Plan.

The Legislation is in place for enhanced commercial activity within IW Council but the key is for Members and Officers to have the right mind set to achieve commercialisation with social value.

6. Initial Findings and Conclusions:

The TF Group in discussions with officers, speaking to other local authorities, and undertaking paper research came to some initial conclusions that the Group Members felt had to underpin any IW Council Commercialisation Strategy:

- a) There needs to be a political drive for commercial activity.
- b) This next begs the question is the necessary political and managerial leadership in place and more importantly will this be effective?
- c) There is a need for a Commercialisation Strategy to be in place to decide the extent of this new approach and this strategy has to be implemented by training of all involved.
- d) What has become apparent is the need for a culture change, both in the operation of Commercialisation, and having the right minded people in place to achieve this. There needs to be clear boundaries between officers leading on clearly defined commercial operations (non-statutory) and Statutory services that may bring in income but are governed by Government set conditions and charges.
- e) There needs to be a divide between commercially run parts of the IOWC and the statutory and administrative parts of the IOWC.
- f) There are already some parts of the IOWC where there is this commercial capability and there these officers need to be identified and enabled to be more effective.
- g) Commercialisation requires a degree of risk and independence and needs to be understood. Current financial accountancy systems/formulas seem to make it difficult to equate real trading costs and profitability due to complexity of internal charging and this needs further investigation.
- h) Any commercialisation has the opportunity to bring Social Values to the IOWC and these need to be considered. The Group explored how other Councils have imaginatively identified within current statutory and non-statutory services "gaps" in the market which provide new income but also provide benefit to the community. Gateshead Council has become the first local authority in the UK to develop and launch its own funeral service. Regent Funeral Services will offer a quality bespoke funeral service at an affordable and competitive price. All types of funerals will be offered, both religious and non-religious, and can include burials, cremations and direct cremations. <https://www.gateshead.gov.uk/article/8745/Gateshead-Council-launches-its-own-funeral-service> It is important to note that IW Council Bereavement Services are already trading successfully. IW Council does have the example of the new Green Waste service that has been very successful.
- i) Any investment in commercialisation may well require additional costs, so any such scheme needs to have a robust Business Plan in place – but based on the Commercial needs of the Plan. It was observed by the Group that Senior Officers were having to manage commercial activities alongside statutory services which simply caused confusion.
- j) A strategic approach is necessary. Dorset County Council was highlighted by the TF Group as a strategic approach that was clear and straight forward (Appendix 1). Interestingly, Dorset County Council has established

a Commercialisation and Income Generation Board and the establishment of such a Board within IW Council could alleviate confusion as mentioned above.

Meetings to discuss the Leisure and Tourism side of the IOWC, which included the Leisure Centres, Dinosaur Island, and a range of IOWC services that charged, revealed the complexity of how very feasible (at first sight) activities could be developed more commercially had hidden barriers. These were as follows:

- **Leisure Centres** - From our discussions it would appear that although Leisure could be a suitable area for a separate trading company bringing a financial gain to the IOWC, the Public Health Grant paid into this department, its IOWC Overhead recovery, and the recent large investments into the Centres would not make this acceptable to such a change. It also has the issue that Leisure Centres are used, not only as polling stations, but are allocated for emergency situations. However, the Group concluded there was a perceived level of unfairness built into the system with Public Health grant funded activities as these grants appear not to be available to Community (non-Council) run sports provision on the Island and there was a need for Scrutiny to investigate this further. There was also a need for a whole Island Leisure Strategic Review so that there is better integration across public, private and voluntary sector provision for the benefit of the whole community.
- **Dinosaur Island** - The current plan of the IOWC to divest itself of this commitment by looking for suitable Partners to undertake, albeit part of a bigger, but private enterprise, would possibly be the best route to take. Our discussion did provide evidence alongside the discussions around Leisure Services that unpicking the statutory responsibilities (for example the statutory responsibilities for archives within Dinosaur Isle) from the trading operations is complex. Dinosaur Isle provides evidence that collaboration with community, third sector (in case of Dinosaur World other Museums) and commercial partners is a viable way forward.
- **Charges** - Here the IOWC is restricted in some areas due to statutory requirements; other charges are reviewed annually and increased, hopefully to reflect actual costs and inflation.
- **Commercial Activities coming out of Statutory Responsibilities** – This involves the Council establishing commercial activities that provide income but also provide an alternative to services that the Council has an obligation to pay for. For example IW Council has already committed itself to establishing a Housing Vehicle to build social housing that will provide housing for people on its housing waiting list and homeless families. The group discussed how other authorities provide residential services for children and children from other authorities which cut costs to Council alongside providing new income. This proposal could be further explored in Stage 2.
- **Good Practice - Current Commercialisation Activity within IW Council in Comparison with Other Local Authorities.** The Group explored what other local authorities did and what the Local Government Association recommended and the following findings were:
 - A. **Re-organisation of Management Team to be more commercially orientated.** IWC have restructured the senior management team. There needs to be a review of effectiveness of this change and again this can be explored in Stage 2.
 - B. **Using Capacity in Professional Services to bring in extra income.** IW HR is selling services to local schools. Other opportunities should be explored further in Stage 2.
 - C. **Increasing Fees/Charges of Current Services such as Parking.** IW Council has a register of charges and is actively seeking to increase charges and 30% of proposed Savings in the proposed 2019/20 budget are in fact increasing charges. This can be

controversial and short-sighted as increasing charges such as car-parking could have an economic knock on effect and negative social impact on local residents. The Group concluded IW Council needed to be more collaborative with key stakeholders and local residents in finding solutions to budgetary issues.

- D. **Buying Commercial Property outside area for rental income** – IW Council has implemented this strategy and although the Group did discuss this activity, it does need to further investigate this part of commercial strategy in Stage 2.
 - E. **Investing in Utilities/Energy** – IW Council moved away from establishing an energy company which has been undertaken in other areas. However, it has invested in Wight Community Energy, a community owned solar farm.
 - F. **Setting Up a Housing Company** – IW Council has already agreed to pursue this policy.
 - G. **Development of Non-Statutory Services** such as Leisure Services to bring in increased income - The IW Council has a range of listed trading operations such as Floating Bridge, Leisure, and Bereavement Services. These need to be explored further and as referred to above there is a need to unpick the complexity that is currently within many of these potential income generating activities. There is a need have clarity on the real surplus generated.
 - H. **Statutory Services** such as residential homes that increase more cost effective services for the Local Authority and enable it sell services to other authorities. This is currently not being explored by IW Council and there are limitations with the Island factor and with other authorities already doing this (competition).
 - I. **Waste** – There are a number of Local Authorities who have been very successful in this area. IW Council's new Green Waste service in collaboration with Amey is an indication of the potential.
 - J. **Efficiency and Maximising Income** – All Local Authorities with successful commercialisation strategies have had to go through vigorous efficiency review and reorganising systems.
- **IW Voluntary Sectors and Commercialisation** – It is important to understand that the IW voluntary sector has some established commercial activities that bring in new income due to reduction of funding from Public Sector. IW Community Action combines trading with providing needed community services such as Post Offices with creating employment for vulnerable residents such as a bakery. It has recently teamed up with a fair trade company in India to establish an import business. It is important that the IW Council does not develop a strategy in isolation and involves other IW Stakeholders (Appendix 2).

5. Recommendations

5.1. That the Task and Finish Group move onto Stage Two.

5.2. That the Group and Relevant Officers visit other Local Authorities to explore successful implementation of Commercial Strategies. There is a commitment from the Development Manager at Aylesbury Vale District Council that they would be more than ready to discuss their approach to Commercialisation. Their approach over the last ten years has been very 'ground breaking'. It is noted IW Council has had visits from Commercialisation Officers from Essex County Council.

5.3. That the TF Group works with identified Commercialisation Cabinet Members and Officers in producing a Commercial Strategy.

5.4. That there is further exploration of the establishment of the Dorset Model and consider an IW Council Commercialisation and Income Generation Board. This would enable effective and focused Governance, Scrutiny, and Transparency.

5.5. That Policy and Scrutiny Committee for Adult Social Care and Public Health be asked to investigate possible "anomalies" in regard Public Health Grant payments to Leisure Services. Please note the word "anomalies" is derived from the IW Council's External Auditor's Report 2017-18 which brought the attention of the Public Health Grant to Leisure Services to Members through the Audit Committee.

5.6. That in Stage Two there is Scrutiny of IW Council's policy on buying commercial property on the mainland and establishment of a House building and rental company.

Appendix 1 – Other Local Authority Examples

Dorset County Council – Case Study

Strategic Approach

In becoming a more business and commercially minded organisation and supporting commercialisation and income generation as a 'One Council' activity will require investment. The central development and co-ordination of focussed activity will be essential to the success of delivering an effective income strategy to contribute to the future viability of the Council. Development, training, active promotion and communication will be essential to drive and deliver successful outcomes. The required level of change is not to be underestimated.

Therefore, to ensure appropriate challenge and to deliver the required transition to a new culture and approach, the Council has established a Commercialisation and Income Generation Board. This Board has established a number of supporting work streams to provide specific focus and attention on key areas.

These are listed as follows;

Commercialisation & Income Generation Work streams

1. Policy and Strategy ▯ Development of commercial and marketing plan / enterprise strategy etc. ▯ The establishment of decision parameters which will guide opportunities and approval routes, ▯ The approach to pricing / overheads ▯ Appreciating and maximising our USP

2. New Income and Customer Relationship Management ▯ The approach to and pursuit of new opportunities. ▯ How we treat and manage our customers to attract new and retain existing business. ▯ Debt Management

3. Governance and Operating Model ▯ Legal Framework ▯ Oversight (e.g. risk and assurance) ▯ Delivery models ▯ Decision making framework and delegated approval levels etc.

4. Cost of Operation (Support Services) ▯ Support service costs and break down ▯ Zero based budgeting approaches etc.

5. Workforce Learning and Development ▯ Skills assessment ▯ External training support ▯ Development of in house training programmes / e-learning packages

6. Innovation Hub ▯ A forum to invite and consider ideas to obtain new income ▯ Develop criteria for ideas to be assessed against (e.g. has it got the potential to be successful?) ▯ Identify those ideas worthy for further development

<https://dorset.moderngov.co.uk/documents/s1280/Commercialisation%20Income%20Generation%20Strategy.pdf>

Appendix 2 – Commercialisation within IW Voluntary Sector

Case Study – Social Value Commercialisation on Isle of Wight



Sabirian CIC is a trading arm of Community Action and 100% owned by it.

It aspires to ethically run an import business from India, selling hand crafted furniture, jewellery, homeware, giftware to sell both locally initially through its Newport shop, nationally and internationally online, nationally through its wholesale side and nationally through a social franchise model supporting other charities to set up their own local retail offer.

An intrinsic part of the Sabirian approach is to also offer training and work placements opportunities to those facing additional barriers to employment and secured funding from RBS/Nat West to run a business skills course for unemployed people linked to its social enterprise work. Thirdly it also helps people in India through a trade not aid approach by utilising predominantly micro/family businesses as the suppliers, following fair trade guidance and specifically works with worthy groups such as a women's co-operative in Jaipur wherever possible.